SUMMARY ANALYSIS OF AMENDED BILL

Franchise Tax Board

Author: Murray | Analyst: Kimberly Pantoja | Bill Number: SB 1817

Related Bills: See Prior Analysis | Telephone: 845-4786 | Amended Date: 03/27/2000

Attorney: Patrick Kusiak | Sponsor: ______

SUBJECT: Internet Connection and Access Device Credit

_____ DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended _________.

X AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

X AMENDMENTS DID NOT RESOLVE ALL OF THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced February 24, 2000.

X FURTHER AMENDMENTS NECESSARY.

_____ DEPARTMENT POSITION CHANGED TO ________________________.

X REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED February 24, 2000, STILL APPLIES.

_____ OTHER - See comments below.

SUMMARY OF BILL

Under the Personal Income Tax Law (PITL) and the Bank and Corporation Tax Law (B&CTL), this bill would provide a credit of $200 to any Internet service provider who provides an Internet connection, at least five years of Internet access, and a personal computer to a low-income household.

SUMMARY OF AMENDMENT

The proposed amendments modified the legislative intent language, specified the credit amount to be $200, specified that the taxpayer must be an Internet service provider, and specified that the taxpayer must provide at least five years of Internet access and a personal computer as well as an internet connection.

The Effective Date, Legislative History and current law discussion of Specific Findings in the department's analysis of the bill as introduced still apply. The remainder of that analysis is replaced with the following.

SPECIFIC FINDINGS

This bill would provide a credit equal to $200 to any taxpayer that is an Internet service provider that provides without charge to a low-income household each of the following: an Internet connection, at least five years of Internet access, and a personal computer.

The bill defines "low-income household" as a household that meets the same income standards currently in law for lifeline telephone service (as defined in the Public Utilities Code) and has at least one child enrolled in public school in grades K to 12, inclusive.

Board Position:			Department Director	Date
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_____ N	_____ OUA	X PENDING		

This bill defines “personal computer” to mean a fully operational multimedia personal computer that, at a minimum, is equipped with all of the following performance standards, software and other features or their equivalent:

- 56k internal modem
- 380mhz processor
- 64 megabytes of RAM
- 4 gigabyte hard drive
- 32 speed CD-ROM
- a word processing program copyrighted 1999 or later
- technical assistance equivalent to assistance provided to a purchaser of the computer or Internet service in the normal course of business

This bill would require the taxpayer to maintain adequate records to justify the eligibility of all participants.

This bill would allow any unused credit to be carried over until exhausted.

Policy Considerations

This bill does not restrict the credit to taxpayers that provide Internet connections, Internet access and computers to low-income households located within California.

Implementation Considerations

This bill uses the term "Internet connection" but does not define it in the bill. It is unclear whether "Internet connection" would include only the dial-up account or also the phone line and installation if necessary. The absence of a definition to clarify this term could lead to disputes between the department and taxpayers and thus could complicate the administration of the credit.

It is unclear whether the author intends that the credit to be $200 a year for each of five years for providing a computer and Internet connection, for a total of $1,000, or simply a single $200 credit for providing the computer and five years of service. In either case, it is unclear how the credit would be administered if the taxpayer does not satisfy the five-year requirement. The bill should clarify whether the credit would be disallowed or otherwise recaptured for the earlier years if the taxpayer does not satisfy the five-year requirement. In addition, the author’s intent should be clarified regarding total credit per computer -- $200 or $1,000.

This bill does not limit the number of years for the carryover of unused credit amounts. The department would be required to retain the credit carryover on the tax forms indefinitely because unlimited credit carryover is allowed. Recent credits have been enacted with a carryover limit since experience shows credits are typically used within eight years of being earned.

FISCAL IMPACT

Departmental Costs

Once the implementation concerns are resolved, this bill should not significantly impact the department's costs.

Tax Revenue Estimate

This bill is estimated to result in revenue losses under the PITL and B&CTL as shown in the following table.

Fiscal Year Cash Flow Taxable Years Beginning After December 31, 1999 Enactment Assumed After June 30, 2000 $ Millions		
2000-01	2001-02	2002-03
Minor Loss*	Minor Loss*	Minor Loss*

* Loss less than $500,000

The revenue estimate decreased from an annual loss of $6 million to a minor revenue loss because the original estimate assumed that the credit amount would be approximately $640 and because it was assumed that taxpayers would redirect donations from charitable entities to low-income households.

This analysis does not consider the possible changes in employment, personal income, or gross state product that could result from this measure.

Note: It is assumed that low-income households must be in California and only "donations" would qualify, not employee benefit compensation options.

Tax Revenue Discussion

The revenue impact for this bill would be determined by the number of taxpayers donating to low-income households, donation amounts, the cost, and the amount of credits that can be applied against available tax liabilities.

This estimate was developed in the following steps. First, the same household population as used in the original estimate for the bill as introduced was used for this estimate. Second, it was assumed that the average cost for a personal computer, as defined in the bill, and Internet access for at least five years would be approximately $2,000 per donation.

According to the Detwilder Foundation for computers, the majority of taxpayers donate used or unwanted computers to schools/libraries, not individual households. Taxpayers who currently make charitable donations are entitled under current law to take a deduction for the fair market value of the donation. Based on the definition of an Internet device and the length of time one must provide Internet access, it was assumed that the tax savings for those qualifying taxpayers would be minimal and the majority of taxpayers would elect to donate to a school or other charity in order to take the charitable deduction rather than the $200 credit provided by this bill. Therefore, the revenue losses would be minor in any given year.

If the author intended for the credit to total $1,000 per computer and five years of access, this revenue would have to be adjusted upward.

BOARD POSITION

Pending.